

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2003-793

November 13, 2003

BANGOR HYDRO-ELECTRIC COMPANY
Application for Approval of Issuance of
Securities (§902) (\$20 Million Senior
Unsecured Notes)

ORDER APPROVING
ISSUANCE OF
SECURITIES

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

On October 24, 2003, Bangor Hydro-Electric Company (BHE or the Company) filed with the Commission its application for authority to issue up to \$20 million in fixed-rate unsecured notes through Fleet Securities, Inc. (FSI) for period not to exceed 15 years. The Company intends to use the proceeds of this issuance to refinance existing short-term debt. These securities will be offered on a private placement basis and the fixed interest rate is not expected to exceed a margin of 2.30% over the yield of U.S. Treasury Bonds with a comparable maturity. This Order approves BHE's request.

II. BACKGROUND & ANALYSIS

During June 2003 approximately \$35 million of BHE's existing long term debt matured and was temporarily funded with the Company's variable-rate short-term revolving credit facility. By Order dated July 7, 2003 in Docket No. 2003-418, *Bangor Hydro-Electric Company, Application for Approval of Issuance of Securities*, the Commission approved the Company's request to issue \$30 million in 15-year senior unsecured notes to permanently refinance those maturities. At that time, BHE indicated that it had received approval from its Board of Directors to consider issuing an additional \$20 million in unsecured senior notes later in the year because fixed interest rates for medium and long-term debt were at historically low levels.

With roughly \$23.5 million in existing short-term debt and with favorable interest rate conditions continuing to prevail, the Company has requested approval to issue the additional \$20.0 million in 15-year senior unsecured notes previously approved by its Board. While BHE's revolving credit facility will remain in place, the Company is not characterizing this issuance as "new money."

BHE has chosen a 15-year maturity and will make eleven equal principal payments of \$1.82 million annually beginning in the fourth year of the agreement. Current indications from FSI are that the fixed interest rate will not exceed 2.30% (or 230 basis points) over comparable U.S. Treasury securities. Because of the amortization schedule of the notes, this issuance will have a 10-year average life.

Based on the Federal Reserve's H.15 publication released on November 3, 2003, the 10-year Treasury Bond rate was 4.31%. This would indicate a fixed interest rate to BHE of not more than 6.61%. In addition, because FSI handled the earlier private placement for BHE, the additional private placement issuance fee will be \$50,000, which amounts to an additional cost of 4 basis points based on a \$20 million issuance.¹ BHE, therefore, expects to realize an "all-in cost" no higher than 6.65% this issuance.

Until its rating was withdrawn at its own request in March 2003, BHE held a senior debt rating of BBB ("Triple-B") from Standard & Poors, which is equivalent to a Moody's rating of Baa.² As of October 31, 2003, Moody's indicates that the current interest yield on long-term "Triple-B" utility debt is roughly 6.71%, which is comparable to the estimate FSI's has made to BHE's. In addition, with the Company operating under an alternative rate-making plan (ARP), it has every incentive to make the appropriate decision regarding this securities issuance. Finally, the Company has stated that if the bids received amount to an issuance spread that is less than 230 basis points over the treasury index on the offering date, that it will receive that lower rate.

Having reviewed the application of the Company, together with data filed in support of it, it is the opinion of the Commission that the proceeds of the issuance of the bonds are required in good faith for the purposes enumerated in 35-A M.R.S.A. §901. In approving this securities issue, consistent with normal practice and pursuant to §902(4), the Commission does not imply approval of the Company's capital needs or capitalization ratio for ratemaking purposes, nor does this order limit or restrict the powers of the Commission in determining or fixing any rate.

Accordingly, we

ORDER

1. That Bangor Hydro-Electric Company is hereby authorized to issue up to \$20 million in unsecured notes, to be used solely for the purposes described in this Order, for a period not to exceed 15 years, at a fixed interest rate not to exceed 230 basis points (2.30%) over the prevailing rate on Treasury securities of a comparable maturity on the date of issuance.

¹ The fee is quoted as "the greater of \$200,000 or 0.50% of total offering size." Based on two offerings totaling \$50 million, 0.50% or \$250,000 is the greater amount. However, BHE already paid \$200,000 of this fee pursuant to the earlier issuance. The all-in cost for both issuances combined at a fee of \$250,000 results in an issuance spread of 7 basis points over the life of the notes.

² Emera, Inc, parent of BHE, is currently rated BBB+ by S&P, Baa2 by Moody's and BBB (High) by Dominion Bond Ratings Service of Canada.

2. That the Company report to this Commission, in writing, its doings pursuant to this order within sixty (60) days of the date of the closing of this transaction.
3. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 13th day of November, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Diamond
 Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 21 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.